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Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /158 W
---------- 039859
R 211435Z MAR 74
FM AMEMBASSY LIMA
TO SECSTATE WASHDC 9359

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 2223

EO 11652 GDS
TAGS: EGEN, PE
SUBJ: STATUS OF SOCIAL PROPERTY LEGISLATION

REFS: LIMA 2028, LIMA 6467 OF 8/31/73, LIMA MEMCON
OF 11/14/73

1. SUMMARY: CONFIRMING PRESIDENT VELASCO'S PRESS STATEMENT OF LAST WEEK (LIMA 2028), COFIDE DEPUTY MANAGER ENRIQUE VALDIVIA TOLD EMBASSY OFFICERS MARCH 19 THAT THE NEW SOCIAL PROPERTY LAW WILL BE PROMULGATED DURING THE FIRST WEEK OF APRIL. VALDIVIA SAID THE DRAFT LAW (LIMA 6467) HAS BEEN MODIFIED TO REFLECT SUGGESTIONS RECEIVED FROM THE PUBLIC, PARTICULARLY BY INCREASING THE POWERS OF INDEPENDENTLY-HIRED MANAGERS OF EACH SOCIAL PROPERTY ENTERPRISE (SPE) AND BY DECREASING THE DIRECT ROLE THAT THE NATIONAL COMMISSION FOR SOCIAL PROPERTY WILL HAVE IN OPERATIONAL AND FINANCIAL QUESTIONS. VALDIVIA ADMITTED, HOWEVER, THAT SOME OF THE AWKWARD FINANCING FEATURES OF THE DRAFT LAW REMAIN IN THE FINAL VERSION. VALDIVIA PREDICTED THAT THE POLITICAL PRESSURE TACTICS FOR WHICH SINAMOS IS INFAMOUS WILL NOT BE ALLOWED TO INTERFERE WITH EFFECTIVE OPERATIONS OF SPEJJS. FIRST SPE WILL BE LIMA BUS COOPERATIVE, BUT OTHERS, PRINCIPALLY IN METAL-WORKING
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INDUSTRY CENTERED IN INDUSTRIAL PARKS AROUND COUNTRY,

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WILL FOLLOW DURING NEXT SEVERAL YEARS. END SUMMARY

2. VALDIVIA PREDICTED SPE LAW WILL APPEAR DURING FIRST WEEK IN APRIL, WITH SUBSTANTIAL MODIFICATIONS IN REGARD TO ROLE OF NATIONAL COMMISSION AND WITH COFIDE TO BE DESIGNATED AS CHIEF FINANCIAL INSTITUTION WITH SUPERVISORY RESPONSIBILITY. LAW WILL ALSO PLACE GREATER EMPHASIS ON INDIVIDUAL SPE MANAGERS' POWERS AND RESPONSIBILITIES. ALTHOUGH RATHER SKEPTICAL ABOUT POSSIBLE SUCCESS OF SPE'S WHEN INTERVIEWED LAST NOVEMBER (SEE REF MEMCON), VALDIVIA WAS MORE SANGUINE THIS TIME, PRINCIPALLY BECAUSE HE BELIEVES GOP TOP LEADERSHIP WILL CONTROL SINAMOS WHICH HAS TRADITIONALLY PLAYED A DISRUPTIVE ROLE WITH THE INDUSTRIAL COMMUNITY. STATING HE HAD BEEN PERSONALLY CHOSEN BY PRESIDENT VELASCO LAST YEAR TO OVERSEE THE NEW SYSTEM FROM WHITHIN COFIDE, HE IS NOT CONVINCED THAT THE GOP WILL MOVE SLOWLY BUT SURELY TO SET UP NUMBERS OF SPE'S DURING NEXT FEW YEARS.

3. SPE'S WILL BE CONCENTRATED IN METAL-WORKING SECTOR IN VARIOUS PLANNED INDUSTRIAL PARKS BUT WILL ALSO INCLUDE SERVICE INDUSTRIES, AGRO-INDUSTRIAL FIRMS, AND SOME ILL EVEN BE ENGATED IN MANUFACTURING. IN REGARD TO THE FIRST SPE, THE LIMA METROPOLITAN BUS COOPERATIVE, VALDIVIA SAID IS SOMETHING OF AN ANOMALY. IT IS INDEED CHILD OF SINAMOS AND WAS ORIGINALLY FORMED BY WORKERS FROM 14 NEARLY INSOLVENT AND/OR BANKRUPT SMALL BUS COOPERATIVES AT THE INSISTENCE OF THE SINAMOS LEADERSHIP AND THE MINISTRY OF TRANSPORTATION. WORKERS ORIGINALLY HAD GRANDIOSE AND NAIVE NOTIONS ABOUT ADMINISTRATION OF NEW ENTERPRISE, AND DID NOT COMPREHEND FINANCIAL RESPONSIBILITY INVOLVED IN ACCEPTING COFIDE LOAN FOR THEIR FIRST SPE. NOW, HOWEVER, WITH CAREFUL TUTELAGE FROM COFIDE AND WITH SOUND LEGAL ADVICE, THE WORKERS ARE SAID TO BE READY TO EFFECTIVELY MANAGE NEW LINE OF CREDIT COFIDE WILL MAKE AVAILABLE. IN FACT, VALDIVIA SAID, BUS COOPERATIVE LEADERS ARE DISILLUSIONED WITH SIMPLISITIC SINAMOS RHETORIC SINCE THEY REALIZE PROBLEMS INVOLVED IN MANAGING THEIR OWN (COLLECTIVELY HELD) MONEY. VALDIVIA ALSO NOTED THAT ORIGINAL DEBTS OWED TO FORMER OWNERS OF THE FOURTEEN COOPERATIVES CONFIDENTIAL

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WILL NOT BE PAID.

4. COP HAS AUTHORIZED COFIDE TO RAISE $206 MILLION (70 PERCENT IN FOREIGN EXCHANGE) TO FINANCE PROJECTED SPE PROGRAM OVER SEVERAL YEARS. COFIDE HAS NOT YET SIGNED LOAN AGREEMENT SO AS TO AVOID PAYING COMMISSION FEES, AND VALDIVIA DOES NOT FORESEE DIFFICULTIES IN RAISING NEEDED AMOUNTS OF MONEY IN INTERNATIONAL MONEY MARKETS ON SCHEDULE. THE

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NEW LAW, ACCORDING TO THE SOURCE WILL TAKE INTO ACCOUNT
INFLATIONARY TENDENCIES WHICH SUBSTANTIAL GOP SPENDING
MIGHT CAUSE.

5. CONTRARY TO VALDIVIA'S (AND OTHERS) ADVICE, FINAL LAW
WILL RETAIN AWKWARD FINANCING FEATURES, INCLUDING AUTHORIZA-
TION FOR EACH SPE TO ISSUE (ACCIO-BONOS" (SHARE BONDS)
PAYING VARIABLE INTEREST (SEE LIMA 6467), A FEATURE WHICH
WILL MAKE THEM UNATTRACTIVE TO INVESTORS. TO COUNTER
THIS TENDENCY, VALDIVIA SAID THAT GOP BANKING SYSTEM WILL
BE REQUIRED TO HOLD SMALL PERCENTAGE OF THESE SHARE-BONDS
AS PART OF THEIR ASSETS IN ORDER FINANCE SOCIAL PROPERTY

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OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /158 W
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R 211435Z MAR 74
FM AMEMBASSY LIMA
TO SECSTATE WASHDC 9360

C O N F I D E N T I A L SECTION 2 OF 2 LIMA 2223

R. CERTIFICATES OF PARTICIPATION WILL, AS AELLJN
RETAIN ROLE ENVISAGED IN DRAFT LAW.#

6. VALDIVIA ALSO SAID THAT NEW LAW WILL SUBSTANTIALLY
STRENGHEN ROLE OF HIRED MANAGERS FOR THE SPE'S, WHO WILL
NOW HAVE A VOTE ON BOARD OF DIRECTORS, AND THE NATIONAL
COMMISSION WILL ACT SOLELY AS A TOP-LEVEL ADVISORY BODY
WITHOUT, IN HIS JUDGEMENT, A DIRECT ROLE IN MANAGING ENTER-
PRISES. IN ADDITION, COFIDE PLANS TO HAVE MEMBERS OF ITS
OWN STAFF ACT AS UNOFFICIAL SUPERVISORS ON THE BOARD
OF EACH SPE TO MAINTAIN REGULAR FLOW OF INFORMATION ON HOW

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SPE'S ARE FUNCTIONING.

7. COMMENT: UNTIL VELASCO'S LATEST PRESS CONFERENCE, RECENT PUBLIC MENTION AND EVEN PRIVATE DISCUSSION OF SPE CONCEPT HAD BEEN MINIMAL. HOWEVER, IT IS NOW APPARENT THAT THE GOP IS ON THE VERGE OF CREATING THIS NEW PROPERTY CONNEPT FOR PERU. REFLECTING HIS ECONOMIC TTRAINING, VALDIVIA'S VIEWS ARE NOTEWORTHY BECAUSE HE IS SKEPTICAL ABOUT ASPECTS OF THE SPE CONCEPT BUT HE ALSO HAS RESPON-SIBILITY FOR MAKING IT FUNCTION. INFLATIONARY TENDENCIES WILL CERTAINLY BE WATCHED CAREFULLY ONCE COFIDE STARTS SPENDING MONEY ON SPE'S, BUT IT MAY BE WISHFUL THINKING TO
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ASSUME THAT SINAMOS WILL BE RESTRAINED ENOUGH TO AVOID DISRUPTION IN SPE OPERATIONS, PARTICULARLY IF WORKER GRIEVANCES BECOME APPARENT. ON THE OTHER HAND, IT WILL BE GOP MONEY, NOT THE PRIVATE SECTOR'S (THE LATTER HAVING PROVED AN ATTRACTIVE TARGET FOR SELECTIVE SINAMOS HARASS-MENT), S
IT IS QUITE POSSIBLE THAT SINAMOS' ROLE WILL BE LESS DISRUPTIVE THAN HERETOFORE. FURTHER, PRESIDENT VELASCO IS COMMITTED TO INTRODUCING SPEJJS, AS ARE SEVERAL OF HIS KEY IDEOLOGUES. GIVEN THE FACT THAT THESE TOP DECISION-MAKERS DEFINE THE ULTIMATE GOALS OF THEIR "REVO-LUTION" AT LEAST PARTIALLY IN TERMS OF
THE SPE CONCEPT,
IT IS CERTAIN THEY WILL ATTEMPT TO GUARANTEE THAT THE FIRST SPE'S DO, INDEED, PRODUCE WHAT THE DRAFT LAW CALLS AN "ECONOMIC SURPLUS."
BELCHER

NOTE BY OC/T: LIMA 2223 (SEC 2 OF 2),#POSSIBLE OMISSION FIRST LINE OF TEXT. CORRECTION TO FOLLOW.

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